

Message Text

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ACTION EB-08

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TO SECSTATE WASHDC 3480

INFO AMEMBASSY ABU DHABI

AMEMBASSY ATHENS

AMCONSUL DHAHRAN

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY MANAMA

USDOC WASHDC

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E.O. 11652: N/A

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SUBJECT: OMAN'S BUDGET FOR 1977

1. THE OMAN GOVERNMENT HAS RELEASED BUDGET FIGURES FOR 1977. TOTAL REVENUES INCREASED BY 16 PERCENT TO A LEVEL OF RIALS OMANI 714 MILLION (\$2,082,288,000), WHILE EXPENDITURES JUMPED 27 PERCENT TO R.O. 770 MILLION (\$2,248,000,000). THE BUDGET DEFICIT THIS YEAR IS R.O. 56 MILLION (\$163 MILLION), AS COMPARED TO ONLY R.O. 4 MILLION IN 1976. WHILE THE BIGGEST GOVERNMENT OUTLAYS HAVE BEEN ON DEFENSE, A MAIN REASON FOR THE UNEXPECTEDLY LARGE DEFICIT IS A 43 PERCENT RISE IN CIVIL RECURRENT EXPENDITURES TO R.O. 95 MILLION.

2. MAIN SOURCES OF REVENUE ARE:

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(A) PETROLEUM REVENUES OF R.O. 460 MILLION (\$1,343,000,000), VIRTUALLY EQUAL TO LAST YEAR'S R.O. 455 MILLION, AS THE RISE IN THE OIL PRICE BALANCES THE DECLINE IN VOLUME OF PRODUCTION.

(B) CUSTOMS AND OTHER REVENUES OF R.O. 33 MILLION.

(C) LOANS OF R.O. 77 MILLION AND GRANTS OF R.O. 144 MILLION, (TOTTALLING \$645 MILLION), LARGELY REPRESENTING EXTERNAL CAPITAL FROM SAUDI ARABIA AND ABU DHABI. THESE FUNDS INCLUDE SPECIFIC PROJECT LOANS FOR DHOFAR DEVELOPMENT AND THE SOHAR COPPER PROJECT. OFFSETTING THIS INFLOW OF CAPITAL FROM FRIENDLY ARAB NEIGHBORS ARE PAYMENTS OF R.O. 93 MILLION (\$271 MILLION) FOR INTERST AND PRINCIPAL PAYMENTS ON PREVIOUS DEBT, WHICH IS THREE TIMES LAST YEAR'S DEBT SERVICE.

3. DEFENSE OUTLAYS OF R.O. 297 MILLION (\$867 MILLION) ARE THE LARGEST SINGLE COMPONENT OF THE BUDGET, BUT THE OVERALL PROPORTION OF DEFENSE SPENDING DECLINED FROM 42 PERCENT IN 1976 TO 38 PERCENT IN THIS YEAR'S BUDGET. R.O. 136 MILLION (\$397 MILLION) WILL BE SPENT ON OPERATIONAL COSTS, AND R.O. 161 MILLION (\$470 MILLION) ON CAPITAL EXPENDITURES AND EQUIPMENT PURCHASES.

4. IN CONTRAST TO THE BURGEONING COSTS OF OPERATING THE GOVERNMENT, CIVIL DEVELOPMENT EXPENDITURES HAVE RISEN ONLY 11 PERCENT TO R.O. 209 MILLION. THE GREATEST PROJECT EXPENSES WERE THOSE OF THE MINISTRY OF COMMUNICATIONS (R.O. 130 MILLION). THERE WAS A SIGNIFICANT RISE IN THE GOVERNMENT SHARE OF PETROLEUM DEVELOPMENT (OMAN' OPERATING AND CAPITAL COSTS. THERE WAS A STEEP RISE IN INVESTMENT IN EDUCATION AND SOCIAL WELFARE. IN GENERAL, THE OMANGOV SEEMS TO HAVE KEPT A REASON-ABLY TIGHT LID ON NEW PROJECTS.
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5. COMMENT: DESPITE AN IMPROVING SYSTEM OF CAPITAL BUDGETING AND PROJECT APPROVAL, THE OMANGOV HAS NOT BEEN ABLE TO KEEP ITS BUDGET BALANCED WITHOUT SUBSTANTIAL FOREIGN ASSISTANCE. GOVERNMENT EFFORTS TO KEEP THE COSTS OF ITS BUREAUCRACY UNDER CONTROL WILL RUN INTO TROUBLE, BECAUSE CIVIL SERVANTS' PAY WILL HAVE TO BE CONSIEDRABLY INCREASED IN ORDER TO RETAIN THE SERVICES OF COMPETENT OFFICIALS. THE OMANIS ARE SHIFTING AS MUCH AS POSSIBLE FROM COMMERCIAL DEBT TO LOW-INTERST LOANS FROM NEIGH-BORING ARAB GOVERNMENTS IN ORDER TO MINIMIZE INCREASINGLY EX-PENSIVE DEBT SERVICE.
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